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ANNUAL REPORT

Agriculture Financial Services Corporation
1994 • 1995



Agriculture
Financial Services
Corporation

1994-95 BOARD OF DIRECTORS

Robert Conibear, *Donalda*
Aaron Falkenberg, *Sherwood Park*
Robert Hymas, *Strathmore*
Jack Iwabuchi, *Fort Saskatchewan*
Bernard Kotelko, *Vegreville*
John Krall, *Nampa*
Judy Pimm, *Grimshaw*
Robert A. Splane, *Ardrossan*
Jerry Thacker, *Burdett*
Harold Thornton – Chairman, *Calgary*

EXECUTIVE OFFICERS

Ray Block,
Vice-President, Insurance Operations
Andrew Church,
Vice-President, Lending Operations
Rick McConnell,
*Vice-President, Research and
Program Development*
Dave Schurman, C.A.,
*Vice-President,
Finance and Administration*
Robert A. Splane,
President and Managing Director

MISSION STATEMENT

*We help customers in the agriculture and food
industry fulfill their business goals by offering unique
financial services.*

LETTER OF TRANSMITTAL

July 21, 1995

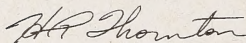
The Honourable Walter Paszkowski
Minister of Agriculture, Food and Rural Development
Province of Alberta
208 Legislature Building
Edmonton, Alberta
T5K 2B6

Minister:

On behalf of the Board of Directors, we are pleased to submit the first annual report of the Agriculture Financial Services Corporation.

As required by Section 14 of the Agriculture Financial Services Act (Statutes of Alberta 1993, Chapter A-12.5) the report contains a summary of the transactions and affairs of the Corporation and its revenues and the application of its expenditures for the fiscal year ended March 31, 1995. The report also contains audited financial statements, including a balance sheet, a statement of revenue, expenditure and surplus and a statement of change in financial position.

Yours truly,



Harold Thornton
Chairman of the Board of Directors



Bob Splane
President and Managing Director

MINISTER'S MESSAGE



I am pleased to present the first annual report of the Agriculture Financial Services Corporation. The corporation came into being when the merger of the former Agricultural Development Corporation and the Alberta Hail and Crop Insurance Corporation became official on April 1, 1994. By

combining several facets of the farmer's risk management needs, AFSC has become a unique financial services institution in Alberta.

The creation of AFSC typifies our government's approach to serving the public. The fundamental philosophy of our government is that we must live within our means, and limit our role to what is necessary. This philosophy must be balanced with the commitment we make to Albertans every day, to provide public service that reflects our core values of people, prosperity and preservation.

AFSC strikes that balance. By amalgamating key financial services for farmers, it offers a unique and highly efficient method for serving farmers and agribusinesses across Alberta. By aligning itself with other similar lenders, such as the federal Farm Credit Corporation, AFSC reduces its administrative costs and increases services to the farm public at the same time.

Other key activities at AFSC bear this philosophy out as well. By outsourcing its Information Systems requirements, it has contributed to our growing economy. Through its agribusiness lending program, AFSC helps create jobs and contributes to the climate of economic confidence for which Alberta is internationally renowned.

The decision to exit the Gross Revenue Insurance Plan (GRIP) responded to our customers' wishes and eliminated a potential problem with international trade agreements. This is the kind of business thinking this government supports.

AFSC pioneered the agricultural financial services concept by combining specialized lending and insurance program delivery in one-stop service centres. Its partnership with Ministry field staff to create one stop service centres in Alberta allows farmers to obtain nearly all government agriculture services in one place. In the future, there will be more opportunities to maximize returns on public funds, and new ways to deliver programs, through strategic alliances.

I am pleased with the continued support and cooperation between AFSC staff and the Agriculture, Food and Rural Development (AFRD) Ministry as a whole. Business plans for both are created with ideas and information shared among all. In the following pages, the progress that AFSC has made with its plan will be readily apparent.

Finally, I would like to express my thanks and encouragement to all AFSC Board members and employees for their hard work and commitment. Their contribution to the success of AFSC and this Ministry is significant and valued.

A handwritten signature in cursive script that reads "Walter Paszkowski".

Walter Paszkowski
Minister of Agriculture, Food and Rural Development

CHAIRMAN'S MESSAGE

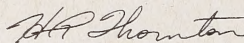
With the completion of the first full year of operations of AFSC, the Board congratulates management for its fine efforts during a time of amalgamation and change. We recognize that change can be disruptive and difficult, and we are proud of the professional way that all AFSC staff have embraced their new, and greater, responsibilities.

Part of the reason for this success lies in commitment to the business plan. A good plan generates a sense of certainty to a corporation that is undergoing new business processes. Our role as a Board is to provide the overall direction to management so that they may create sound operational strategies.

Our direction to management was clear: focus on improving fiscal responsibility; improving customer service and satisfaction; developing policy on agricultural finance and risk management, and developing alliances that result in improved products and services. These directional goals are shaped by government's vision as a whole, and with a clear understanding of the direction of the Ministry of Agriculture, Food and Rural Development.

Fundamental changes are happening in the agriculture and food industry. Unlimited opportunities in rapidly-expanding global markets are being made possible by new trade agreements, information technology and reduced regulation and subsidization. For example, the end of the Crow rate will foster increased value-added activity on the prairies in both the production and processing sectors. In 10-15 years, the industry will be totally transformed. The industry requires development capital, insurance, and investors with strong visions for their businesses and superb management abilities. We accept the challenge of this changing environment, and believe in AFSC's role in assisting the industry as it moves from today to tomorrow.

Board members who retired during the year were Jim Daines, Clarence Goldsmith and Frank Schwengler. I extend my personal gratitude, and that of the rest of the Board, for their much-valued contributions.



Harold Thornton
Chairman

PRESIDENT'S MESSAGE

AFSC is a unique corporation serving Alberta's agriculture industry. It was designed to offer agricultural financial services for commercial and farm lending, business management counselling, crop insurance, safety net protection and specialty insurance products. AFSC exists to assist farmers to make informed and profitable decisions in all facets of financial risk management.

This new corporation was born of the spirit of the business realities of the 1990's: creating new ways to get the job done with shrinking resources. AFSC now operates with approximately 15 per cent fewer staff than its former two entities employed. Our smaller workforce has managed, in its first year, to meet its ambitious business plan objectives while keeping controllable administrative costs down. Overall administrative costs dropped by nearly \$4 million in 1994-95.

AFSC's 1994-95 goals were to improve fiscal responsibility; improve customer service and satisfaction; participate in agricultural policy development, and develop alliances that result in improved products and services for our customers. We have taken decisive action to meet these goals, with strategies to achieve them spelled out in the pages that follow.

Several notable achievements are worth singling out: our efforts with Agriculture, Food and Rural Development (AFRD) to create "one stop" service centres progressed this year, as 14 offices joined together to offer efficient and convenient farm services in one building. Also, a pilot project to automate insurance contracts in the field was begun, and I am confident that project will lead to better customer service as the project is expanded in the future.

Our goal of controlling adjusting costs was advanced with an indepth study of our practices and procedures in 1994-95. It offered alternatives for more effective use of our adjusting dollars, and AFSC will continue to examine possibilities for cost control in the next year.

Our goal to improve efficiency in the way we do business led to a revamping of our insurance contracts. AFSC reduced the number of crop insurance contracts from 16 to four. This reduces the number of forms our customers have to fill out, as well as speed up service to them. A pilot project to delegate more authority to insurance field staff was also successful, and will help improve service to our customers.

Our role as contributor to agricultural policy was paramount in 1994-95, as Alberta readied itself for a "GATT-friendly" safety net program to replace the Gross Revenue Insurance Plan (GRIP).

The successful completion of the AFSC-administered Canada-Alberta Partnership on Agrifood program, a federal-provincial effort which helped agribusinesses in Alberta start up or expand, was a highlight of the year. The program offered interest-free advances to 69 companies in Alberta, who created new jobs for 940 Albertans. This \$17.4 million program stimulated jobs and private investment in one of the most exciting industries of our economy.

Plans for three pilot projects for the new local opportunity bond product were completed and a public information program was introduced. We look forward to reporting on the results of this initiative in our next annual report.



R.A. Splane
President and Managing Director

OPERATIONAL HIGHLIGHTS

CORPORATE BOTTOM LINE

Administration expenses across the corporation dropped 11 per cent, from \$34.6 million to \$30.7 million. This was achieved partly through a five per cent reduction in salaries and benefits; a voluntary retirement/severance option, and a reduction in adjusters' costs because of fewer claims, reduced travel and other costs.

INSURANCE DIVISION: BUSINESS HIGHLIGHTS

The Insurance Division achieved a substantial reduction in the number and cost of crop and revenue insurance claims, and significant savings in administration expenses were made in 1994-95. As a result, an excess of revenue over expenditures of \$237.2 million was recorded.

Insurance claims dropped to \$69.9 million from 1993-94's total of \$306 million. This substantial decrease resulted from more favorable weather during the crop year, and a drop in overall participation. Total producer premiums dropped to \$143.8 million, down from \$175.1 million in 1993-94.

CANADA-ALBERTA CROP INSURANCE

Crop insurance covers farmers against production-related risks based on long-term average yields. Indemnities, when warranted, are paid at a pre-determined price for any shortfall in production that insured farmers sustain as a result of insurable natural perils. The pre-determined price, or "price option," is set annually before the crop season, and attempts to reflect the current year's market price as closely as possible.

All costs within the cost-sharing agreement are shared between producers and the two levels of government, with producers paying 50% of the premium and the remaining 50% plus administration costs shared equally between the federal and provincial governments.

Total premiums reached \$83.5 million, and total losses were \$22.3 million, for a loss to premium ratio of 26.7 per cent. This is a marked improvement over last year's 62.4 per cent, and is largely due to better weather. Acres insured dropped to 9.1 million, compared to 11 million last year.

HAIL INSURANCE

Hail insurance allows producers to insure up to a maximum dollar coverage per acre, and losses are paid on the percentage of damage determined. The hail program is entirely self-sustaining, operating without government funding, and is backed by a private reinsurance fund. Participation in 1994-95 reached 10,565 contracts, a significant increase compared to 8,437 last year. Its loss ratio was 94 per cent compared to 77 per cent last year.

FORAGE INSURANCE

Forage insurance offers protection to agriculture's livestock and feed sector, allowing a participant to insure all of his/her hay and/or pasture acres at a crop-type specific production guarantee, for a pre-determined price. Coverage levels remained at 70% of normal for hay and pasture, and an 80% option was in place for irrigated hay.

REVENUE PROTECTION AND GRIP

Revenue protection, and the full package Gross Revenue Insurance Plan (GRIP), was introduced in 1991 to provide producers with a measure of stability against fluctuations in prices and/or production.

In Alberta, revenue protection has been distinct from crop insurance, and could be purchased by itself or, when in combination with crop insurance, as GRIP. Revenue protection was offered on grains and other specified crops as directed by a national committee.

The crop insurance portion of GRIP provides production protection for each crop, to a level of 70%, based on the individual's yield record history. Any shortfall in production is paid at a pre-determined price set as closely as possible to the anticipated market price.

Under GRIP, a "target revenue" has been established for each insured crop, arrived at by multiplying the producer's "normal yield" (individual or area averages) by the "support price" (70% of a 15-year moving average price) by the policyholder's seeded acreage. In years when the "market revenue" (market grain payments as defined within the program) plus any payment from crop insurance fell below target revenue, the policy holder was paid for the shortfall.

Alberta officially notified the federal government in February, 1995 of its decision to exit GRIP, as part of a strategy to develop safety net programs that are compatible with international trade agreements, such as the General

Agreement on Tariffs and Trade (GATT). GRIP is unacceptable under GATT because payments are tied to specific commodities. In the 1995 crop year, farmers will have the option to opt out of GRIP without penalty. This process will pave the way for a new, income-based safety net program.

PROGRAM COSTS

All costs within the cost-sharing agreement are shared by producers and the two governments. The premium split is 33.3%-25%-41.6% among producers, and the provincial and federal governments, respectively. Administration costs are shared equally between the two levels of government.

The GRIP deficit was eliminated.

LENDING DIVISION: BUSINESS HIGHLIGHTS

The Lending Division's beginning farmer program is its core service, designed to help primary producers establish and maintain viable farms. It offers a maximum loan amount of \$200,000 per qualifying individual, and its nine per cent interest rate is fixed for the life of the loan. For the first five years of their loan, borrowers are eligible for a three per cent interest rate reduction incentive. In 1994-95, beginning farmer loans increased by 17 per cent, to \$65.4 million from \$56.1 million. The average loan size dropped slightly, to \$82,828 from \$83,358.

The level of arrears is an important indicator of the strength of our lending portfolio. Arrears greater than one year dropped to 1.6 per cent of direct farm lending, continuing a trend begun seven years ago, when a concerted effort to gain control of these costs was begun. To illustrate: in 1987, arrears were 12.1 per cent. Similarly, total properties held for resale dropped from 29.5 quarter sections of land last year to 13 this year,

compared to more than 800, at the peak in the late 1980's.

Total direct and guaranteed farm lending increased to \$188.4 million from \$181.7 million last year.

DIVERSIFYING THE FARM

Business beyond the farm gate is growing in Alberta. A strong agribusiness industry allows farmers better access to national and international markets, and creates jobs and profits for Albertans.

AFSC's Commercial Financial Services division recorded \$10.7 million in new loans and guarantees, including CAPA, in 1994-95. The total agribusiness loan portfolio at AFSC, including guarantees and the CAPA program, reached 191 accounts for a total of \$46 million.

CAPA

The Canada-Alberta Partnership on Agrifood (CAPA) finished its mandate in March, 1995. In that time, the joint federal-provincial

program, which was designed to encourage agrifood processing in Alberta, helped 69 companies begin or expand. Nearly 940 jobs were created, and \$81.5 million of private sector capital was invested in agrifood processing. The program was an effective tool for Alberta companies to prepare for new opportunities in value-added processing. The cost of the program has been low due to the strong repayment success of these companies.

LOCAL OPPORTUNITY BONDS

Local Opportunity Bonds, to be administered by AFSC, are a unique means for rural communities to get directly involved in funding new or expanding small businesses in their areas. As a direct obligation of AFSC, these bonds are RRSP-eligible, making them an effective tool for raising capital. AFSC is planning three pilot projects in 1995/96. For these pilots, AFSC will promise to repay as much as 100% of the bond principal to the bond purchasers, depending on the

amount of equity raised. Income earned from the bond will depend upon the success of the project, and will not be backed by the province.

BUSINESS PLAN PROGRESS: AFSC AND AFRD

AFSC shares the overall vision of the Ministry of AFRD. The vision for the agriculture industry, as defined by the 1993 public consultation *Creating Tomorrow*, is to:

- be profitable
- be globally competitive
- be environmentally sustainable
- value its people

In 1994-95, AFRD listed eight specific goals that related to the vision of the industry. As the lending and insurance agency for the ministry, AFSC's core business activities are directed at achieving Ministry-wide goals.

Specifically, our focus is on two goals in the ministry business plan:

To strengthen the industry's capability to manage risk and uncertainty.

AFSC programs offer risk management options. The beginning farmer program reduces debt repayment risk for new entrants. Crop, hail and revenue insurance protect against production and income shortfalls.

To increase the industry's ability to diversify and add value to the commodities it produces and the products it manufactures.

AFSC's commercial lending programs provide debt capital to new and expanding businesses at market rates and terms.

AFSC BUSINESS PLAN: PROGRESS HIGHLIGHTS

FINANCE AND ADMINISTRATION – 1994/95

GOAL

Improve Fiscal Responsibility

STRATEGY

Develop a system of reporting and accountability by cost centre.

Make user managers responsible for approved Information Technology (IT) project budgets.

Implement approved recommendations of AFSC's business re-engineering project teams.

RESULTS

Budgets and accounting records refined to involve managers more.

Restructured decision-making on systems projects to involve users more and align the projects more closely with strategic goals.

Because the merger left some AFSC staff unionized and some not, the corporation worked with the Public Service Employee Relations Board to enable a staff vote on the issue. The majority of staff voted against union representation.

Privatized Insurance Division systems function to DMR Group, Inc., a company which supplies IT needs to the Lending Division.

Aligned salaries, benefits and harmonized human resource policies for the merged corporation.

Improve Customer Service and Satisfaction

Establish procedures in response to the "Freedom of Information and Protection of Privacy" Act and Regulation (FOIP)

AFSC is prepared for FOIP, with a coordinator appointed and staff training plans established.

Develop Alliances that Result in Improved Products and Services for our Customers.

Develop common information services for one-stop offices.

Working with Agriculture, Food and Rural Development to set up a Ministry-wide area systems network for field offices

INSURANCE OPERATIONS – 1994/95

GOAL

Improve Fiscal Responsibility

STRATEGY

Restructure programs to be more cost effective

RESULTS

Reduced 16 contract types to four, reducing paper and processing costs.

Reviewed wildlife coverage, eliminating double payment under both the All Risk program and the Wildlife program.

Conducted “yield verification” and “acreage verification” study, leading to more effective use of adjusting dollars.

Although weather is a large factor affecting adjusting costs, these early initiatives have helped reduce costs from \$7.7 million to \$5.2 million in 1994/95.

Discontinue programs that have fulfilled policy objectives.

Developed a special application to exit GRIP.

Strictly adhere to federal/provincial agreements.

Strict adherence to federal/provincial agreements and the contract of insurance enabled AFSC to limit financial losses to \$50,000, on appeals and legal challenges which exceeded \$10 million.

Improve insurance portfolio performance.

The deficit in the GRIP program, which was \$255 million in 1992, has been eliminated.

Improve Customer Service and Satisfaction

Improve insurance processing procedures and turnaround time

A pilot project in five offices tested the feasibility of directly entering insurance contract renewal and seeded acreage reports at district offices.

Post-harvest claims turnaround time improved from an average of 83 days in 1992/93 to 52 days in 1994/95.

Transfer more responsibility to regions.

Contract eligibility decisions now made at district offices. Field assessments were reduced to five in 1994-95, reflecting the benefit of regional authority to settle disputes.

LENDING OPERATIONS – 1994/95

GOAL

Improve fiscal responsibility.

Improve customer service and satisfaction.

STRATEGY

Renegotiate the Alberta Farm Development Loan Agreement.

Increase cost recovery through loan/amendment fees.

Improve lending portfolio performance.

Implement approved recommendations of AFSC's business re-engineering project teams.

Delegate more authority to field lending offices.

Ensure customers have access to basic farm management training.

RESULTS

Revisions include a 10% decrease in the amount of the guarantee on each claim; increased flexibility for consolidating existing AFDL's; decreased reporting requirements from participating lenders.

Fees will increase revenues.

Accounts over 1 year in arrears decreased to 1.6% from 1.8%. Number of quarters for sale decreased to 13 from 29.5.

During 1994/95, the corporation moved field insurance and lending operations together in 14 locations to provide one stop service. Loan processing and disbursal procedures analyzed to reduce red tape and save time.

98% of lending decisions now made in district or regional offices.

Taught 20 basic farm management training courses to 139 customers.

Co-sponsored the Managing Agriculture for Profit conference which attracted 385 participants.

GOAL

Develop alliances that result in improved products and services.

STRATEGY

Expand Farm Credit Corporation alliance to improve customer service.

Facilitate rural development with community and business organizations.

RESULTS

Commercial Financial Services staff now deliver FCC products and services to agribusiness customers.

On the farm lending side, AFSC and FCC have merged in four field offices. As the alliance continues, we will improve customer service, increase business opportunities, and reduce overlap, duplication and costs.

Delivered the \$17.4 million Canada-Alberta Partnership on Agrifood, in partnership with the federal government. CAPA stimulated private sector investment in food processing and decreased Alberta's reliance on exports. 940 jobs were created. Industry invested \$81.5 million in agrifood businesses.

Readied Local Opportunity Bond regulations and program details.

**INSURANCE RESEARCH AND
PROGRAM DEVELOPMENT – 1994/95**

GOAL

Improve Fiscal Responsibility

STRATEGY

Work towards actuarially sound insurance programs

Review reinsurance /reserve funds

Improve customer service and satisfaction.

Involve customers in review of major policy changes before changes occur.

Participate in Developing Policy on Agricultural Finance and Risk Management

Develop a "project team" relationship with AFRD.

RESULTS

Completed first actuarial certification of crop insurance and hail insurance.

Participated in national review of crop reinsurance, and private hail reinsurance. Set minimum reserves. Devised method to rebate excess surplus to insureds.

Farmer advisory groups now provide ideas and comments about possible program changes.

AFSC and AFRD plan an ag "safety net" package for the future. AFSC sits on provincial safety net steering committee, GATT 70 administrative planning committee, and the National GRIP committee. Help create policy via members of the AFRD Policy Secretariat. AFRD position secondment to AFSC, located in Edmonton.

SUMMARY OF LENDING ACTIVITY

	1994/95		1993/94		Accumulated Authorizations June '72 - March '95		Active and Outstanding March 31, 1995	
	No.	\$MIL.	No.	\$MIL.	No.	\$MIL.	No.	\$MIL.
Farm Direct Loans								
Beginning Farmer	790	65.4	673	56.1	13,974	1490.4	9,314	743.5
Developing Farmer	11	1.2	9	1.0	165	16.3	124	10.4
Northwest Disaster	0	0.0	0	0.0	196	5.4	103	1.8
Western Disaster	0	0.0	0	0.0	322	10.7	207	5.1
Southeastern Disaster	0	0.0	0	0.0	833	67.9	717	50.7
Other	0	0.0	5	0.3	5,289	278.9	1,367	60.6
Subtotal	801	66.6	687	57.4	20,779	1,869.6	11,832	872.1
Farm Guarantees								
Specific Guaranteed Loans	1	0.1	5	0.2	1,952	87.1	25	3.0
Alberta Farm Development Loans	5,928	120.7	6,069	123.1	147,894	1,768.2	15,820	240.0
Farm Development Guaranteed Loans	0	0.0	0	0.0	431	17.4	2	0.1
Vendor Mortgage Loans	9	1.0	11	1.0	52	4.9	47	3.7
Implemented Guaranteed Loans	0	0.0	0	0.0	0	0.0	31	0.5
Subtotal	5,938	121.8	6,085	124.3	150,329	1,877.6	15,925	247.3
Total Farm	6,739	188.4	6,772	181.7	171,108	3,747.2	27,757	1,119.4
Commercial								
Direct Loans	27	4.9	23	5.2	312	130.4	103	22.6
Specific Guaranteed Loans	4	0.5	10	1.5	491	200.0	23	2.7
Canada-Alberta Partnership on Agri-food	25	5.3	28	7.5	69	17.4	61	15.8
Implemented Guaranteed Loans	0	0.0	0	0.0	0	0.0	2	0.1
Other	-	-	-	-	-	-	2	4.3
Subtotal	56	10.7	61	14.2	872	347.8	191	45.5
Corporate Grand Total	6,795	199.1	6,833	195.9	171,980	4,095	27,948	1,164.9

SUMMARY FOR ALL RISK CROP INSURANCE AND HAIL ENDORSEMENT BY YEAR

Year	Number of Contracts	Acres ,000	Risk ,000	Crop Premium ,000	HE Premium ,000	Total Premium ,000	Crop Loss ,000	HE Loss ,000	Total Loss ,000	Loss/ Premium Percent
1965	1,312	250	3,232	291	-	291	48	-	48	16.5
1966	4,408	991	13,460	1,004	-	1,004	315	-	315	31.4
1967	9,892	2,271	36,857	2,573	-	2,573	1,200	-	1,200	46.6
1968	15,763	3,910	63,950	4,598	-	4,598	5,508	-	5,508	119.8
1969	16,201	3,561	57,105	4,180	-	4,180	6,298	-	6,298	150.7
1970	12,856	2,306	31,941	2,801	-	2,801	1,699	-	1,699	60.7
1971	11,323	2,429	33,310	2,926	-	2,926	2,410	-	2,410	82.4
1972	10,202	2,314	37,073	2,802	-	2,802	2,119	-	2,119	75.6
1973	12,296	3,201	73,399	5,660	2,330	7,990	5,671	765	6,436	80.6
1974	13,883	3,838	125,863	10,510	3,948	14,458	11,695	2,111	13,806	95.5
1975	18,685	5,113	215,976	20,657	6,742	27,399	11,284	7,072	18,356	67.0
1976	18,580	5,343	229,289	22,969	7,580	30,549	9,692	6,808	16,500	54.0
1977	20,878	6,301	279,520	27,263	9,692	36,955	33,225	4,905	38,130	103.2
1978	19,258	5,908	259,967	26,932	9,512	36,444	14,791	7,895	22,686	62.2
1979	18,253	5,882	280,471	28,138	11,134	39,272	14,129	12,717	26,846	68.4
1980	18,862	6,640	381,048	36,300	17,136	53,436	14,741	17,285	32,026	59.9
1981	18,638	7,009	483,148	42,722	22,446	65,168	13,110	13,680	26,790	41.1
1982	18,323	7,204	547,384	44,254	25,702	69,956	30,615	31,796	62,411	89.2
1983	20,050	8,289	663,600	52,824	33,294	86,118	51,208	25,405	76,613	89.0
1984	21,939	9,292	760,839	56,164	40,868	97,032	173,943	38,003	211,946	218.4
1985	23,431	10,575	863,035	70,660	46,820	117,480	236,144	23,475	259,619	221.0
1986	24,994	11,166	825,200	85,788	45,064	130,852	82,777	21,839	104,616	79.9
1987	24,500	10,350	592,194	66,722	33,424	100,146	52,349	24,159	76,508	76.4
1988	26,445	11,370	685,529	78,027	38,626	116,653	93,508	19,247	112,755	96.7
1989	25,936	11,478	953,644	105,417	50,783	156,200	107,190	56,942	164,132	105.1
1990	24,484	10,854	852,380	91,762	44,601	136,363	68,779	11,958	80,737	59.2
1991	24,721	11,511	734,162	79,510	5,936	85,446	33,040	4,653	37,693	44.1
1992	25,001	11,513	771,772	82,612	4,106	86,718	140,777	3,359	144,136	166.2
1993	23,061	10,982	827,351	93,240	4,324	97,564	57,939	2,920	60,859	62.4
1994	20,289	9,067	620,866	83,510	-	83,510	22,335	-	22,335	26.7
Totals	544,464	200,918	12,303,565	1,232,816	464,068	1,696,884	1,298,539	336,994	1,635,533	96.4

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The preparation of these financial statements, management's discussion and analysis and all other financial information relating to the corporation contained in this annual report is the responsibility of management. Except as disclosed, the financial statements have been prepared in conformity with Canadian generally-accepted accounting principles, using methods appropriate for the industry in which the corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

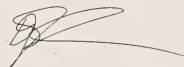
Management depends upon internal accounting control systems to meet its responsibility for reliable and accurate reporting. These control systems are subject to periodic review by the corporation's internal auditors.

The Alberta Auditor General, the corporation's independent auditor, is responsible to express a professional opinion on the financial statements.

The Board of Directors Audit Committee, composed of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review and approve the financial statements. The auditors have full and free access to the Audit Committee.



Bob Splane
President and Managing Director



Dave Schurman, C.A.
Vice-President,
Finance and Administration

AUDITOR'S REPORT



ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

To the Board of Directors of the
Agriculture Financial Services
Corporation

I have audited the balance sheet of
the Agriculture Financial Services
Corporation as at March 31, 1995
and the statements of revenue,
expenditure and surplus, and

changes in financial position for the year then ended. These financial
statements are the responsibility of the Corporation's management. My
responsibility is to express an opinion on these financial statements based
on my audit.

I conducted my audit in accordance with generally accepted auditing
standards. Those standards require that I plan and perform an audit to
obtain reasonable assurance whether the financial statements are free of
material misstatement. An audit includes examining, on a test basis,
evidence supporting the amounts and disclosures in the financial
statements. An audit also includes assessing the accounting principles used
and significant estimates made by management, as well as evaluating the
overall financial statement presentation.

As explained in Note 2(a) to the financial statements, interest accrued on
loans that are significantly in arrears is reported as revenue by the
Corporation. In this respect, these financial statements are not in
accordance with generally accepted accounting principles. Revenue is
overstated by the amount of interest accrued on overdue loans, and the
provision for doubtful accounts is overstated by a similar amount. This
departure from generally accepted accounting principles does not affect the

Corporation's excess of revenue over expenditure or surplus. The amounts
of the overstatements are not reasonably determinable from the
Corporation's accounting systems.

In my opinion, except that interest revenue is recognized on loans that are
significantly in arrears as described in the previous paragraph, these
financial statements present fairly, in all material respects, the financial
position of the Corporation as at March 31, 1995 and the results of its
operations and the changes in its financial position for the year then ended
in accordance with generally accepted accounting principles.

Leto Valentine

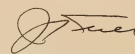
FCA
Auditor General

Edmonton, Alberta
May 12, 1995

AGRICULTURE FINANCIAL SERVICES CORPORATION
BALANCE SHEET AS AT MARCH 31, 1995

	1995	1994 (Note 21)
ASSETS		
Cash	\$ 51,305,578	\$ -
Short-term investments (Note 5)	68,597,720	1,685,601
Accounts receivable (Note 6)	13,996,497	10,703,854
Due from Province of Alberta (Note 7)	-	54,827,952
Due from Government of Canada (Note 8)	-	55,426,579
Due from Crop Reinsurance Fund of Canada for Alberta	41,075	-
Loans receivable (Note 10)	871,170,663	898,690,659
Property held for sale (Note 11)	2,362,915	3,168,039
18 Long-term investments (Note 5)	32,815,649	32,632,955
Other assets (Note 12)	4,025,000	2,675,000
Capital assets (Note 13)	4,821,517	5,851,838
	<u>\$ 1,049,136,614</u>	<u>\$ 1,065,662,477</u>
LIABILITIES AND SURPLUS		
Bank indebtedness	\$ -	\$ 40,828,901
Accounts payable and accrued liabilities (Note 14)	19,373,611	6,822,858
Estimated indemnities payable (Note 15)	12,477,267	62,046,517
Due to Province of Alberta (Note 7)	46,868,056	-
Due to Government of Canada (Note 8)	11,010,457	-
Due to Crop Reinsurance Fund of Alberta	12,915,002	22,366
Due to Crop Reinsurance Fund of Canada for Alberta	-	3,225,279
Allowance for losses on loan guarantees (Note 16)	5,342,000	4,931,000
Debentures payable (Note 17)	907,296,148	962,709,588
Deferred Canada-Alberta Partnership on Agri-food contribution (Note 8)	3,091,415	1,576,564
	<u>1,018,373,956</u>	<u>1,082,163,073</u>
Surplus (deficit)	30,762,658	(16,500,596)
	<u>\$ 1,049,136,614</u>	<u>\$ 1,065,662,477</u>

Approved by the Board:



John Krall
Director



R.A. Splane
President and Managing Director

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION
STATEMENT OF REVENUE, EXPENDITURE AND SURPLUS
FOR THE YEAR ENDED MARCH 31, 1995

	1995			1994	
	Insurance Division	Lending Division	Total Actual	Budget	Total Actual
	(Schedule 1)			(Note 3(a))	(Note 21)
Revenue:					
Premiums from insured persons	\$143,759,394	\$ —	\$143,759,394	\$171,040,000	\$175,110,820
Interest	2,980,331	75,514,332	78,494,663	83,279,457	80,171,494
Contribution from Province of Alberta (Note 19)	83,437,067	64,364,433	147,801,500	184,431,287	212,859,654
Contribution from Government of Canada (Note 8)	120,846,477	563,621	121,410,098	177,081,000	158,771,927
Investment income	6,493,954	909,016	7,402,970	6,150,000	8,500,939
Amortization of loan discounts (Note 10)	—	3,122,429	3,122,429	2,086,132	4,830,889
	<u>357,517,223</u>	<u>144,473,831</u>	<u>501,991,054</u>	<u>624,067,876</u>	<u>640,245,723</u>
Expenditure:					
Indemnities	69,907,345	—	69,907,345	414,417,550	306,061,451
Interest	4,111,658	90,475,635	94,587,293	103,681,951	104,110,381
Reinsurance	26,249,630	—	26,249,630	30,416,600	30,077,541
Disaster assistance interest benefit	—	18,652,463	18,652,463	19,467,840	20,992,698
Farm loan incentives	—	8,302,619	8,302,619	9,275,000	8,806,700
Administration expense, Schedule 2 (Note 20)	19,691,775	11,012,683	30,704,458	35,474,303	34,614,522
Provision for doubtful accounts and for losses (Note 18)	393,749	2,464,690	2,858,439	10,009,600	7,962,252
	<u>120,354,157</u>	<u>130,908,090</u>	<u>251,262,247</u>	<u>622,742,844</u>	<u>512,625,545</u>
Excess of revenue over expenditure for the year	237,163,066	13,565,741	250,728,807	\$ 1,325,032	127,620,178
Recoverable net, Schedule 1	(203,465,553)	—	(203,465,553)		(95,275,204)
Surplus for the year	33,697,513	13,565,741	47,263,254		32,344,974
Surplus (deficit) at beginning of year	52,977,124	(69,477,720)	(16,500,596)		(48,845,570)
Surplus (deficit) at end of year	<u>\$ 86,674,637</u>	<u>\$ (55,911,979)</u>	<u>\$ 30,762,658</u>		<u>\$ (16,500,596)</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1995

	1995	1994		1995	1994
		(Note 21)			
Operating activities			Investing activities		
Cash from operations:			Proceeds on disposal of other assets	1,206,905	—
Excess of revenue over expenditure			Proceeds from sale of properties and		
for the year	\$ 47,263,254	\$ 32,344,974	repayments of loans receivable	101,608,663	107,914,539
Charges (credits) not affecting cash:			Loan disbursements	(76,610,721)	(72,996,340)
Gain on sale of investments	—	(2,618,368)	Proceeds on disposal of capital assets	114,076	17,449
Amortization of investments	16,786	370,090	Purchase of capital assets	(519,321)	(1,348,079)
Amortization of capital assets	952,189	1,163,591	Proceeds from disposal of investments	66,669	4,571,223,048
Write-off and loss on disposal of			Purchase of investments	(64,060,192)	(4,515,673,415)
capital assets	483,376	2,583			
Provision for doubtful accounts	2,858,439	7,962,252	Net cash from investing activities	(38,193,921)	89,137,202
Increase in net liability related to					
unfunded pension liability	—	(1,264,400)	Financing activities		
Amortization of loan discount	(3,122,429)	(4,830,889)	Repayment of loan	—	(2,047,500)
	48,451,615	33,129,833	Repayment of short-term Provincial loan	(4,000,000)	(23,000,000)
			Repayment of debenture principal	(54,501,082)	(64,492,317)
Change in assets and liabilities			Short-term borrowing from the Province		
relating to operations:			of Alberta	—	17,000,000
Increase in accounts receivable	(3,680,664)	(7,066,493)	Decrease in trust fund receivable	—	96,662
(Increase) decrease in reinsurance					
receivables	(41,075)	29,417,730	Net cash from financing activities	(58,501,082)	(72,443,155)
Decrease in government receivables	114,254,531	63,499,710			
(Increase) decrease in investment			Net cash utilized by operating, investing		
accrued interest	(3,118,077)	880,851	and financing activities	92,134,479	60,936,953
Decrease in loan accrued interest	1,361,706	952,573	Bank indebtedness at beginning of year	(40,828,901)	(101,765,854)
Decrease in loan interest in arrears	1,131,364	2,147,867			
Increase in deferred Canada-Alberta			Cash (bank indebtedness) at end of year	\$ 51,305,578	\$ (40,828,901)
Partnership on Agri-Food contribution	1,514,851	1,371,815			
Increase in accounts payable and					
accrued liabilities	12,550,753	1,177,418			
Increase in reinsurance payables	9,667,357	3,247,645			
Decrease in estimated indemnities payable	(49,569,250)	(67,839,499)			
Increase (decrease) in government payables	57,878,513	(14,779,998)			
Decrease in debenture accrued interest	(912,358)	(1,794,507)			
Other	(659,784)	(102,039)			
Net cash utilized by operations	188,829,482	44,242,906			

AGRICULTURE FINANCIAL SERVICES CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1995

NOTE 1 AUTHORITY AND COMMENCEMENT OF OPERATIONS

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the Agriculture Financial Services Act, Chapter A-12.5, 1993.

The Corporation commenced operations on April 1, 1994, and assumed the assets, property, liabilities and obligations of the Alberta Hail and Crop Insurance Corporation and the Alberta Agricultural Development Corporation pursuant to Part 3 of the Agriculture Financial Services Act. The net book value of the assets, property and liabilities assumed by the Corporation are as follows:

	Alberta Hail and Crop Insurance Corporation	Alberta Agricultural Development Corporation	Total
Cash and short-term investments	\$ (40,496,421)	\$ 1,353,121	\$ (39,143,300)
Loans receivable	—	898,690,659	898,690,659
Long-term investments and other assets	32,632,955	2,675,000	35,307,955
Capital assets	4,634,355	1,217,483	5,851,838
Long-term liabilities	—	(969,217,152)	(969,217,152)
Other assets and liabilities	56,206,235	(4,196,831)	52,009,404
	<u>\$ 52,977,124</u>	<u>\$ (69,477,720)</u>	<u>\$ (16,500,596)</u>

Obligations assumed by the Corporation are as follows:

	Alberta Hail and Crop Insurance Corporation	Alberta Agricultural Development Corporation	Total
Contingencies	\$ —	\$ 47,402,431	\$ 47,402,431
Commitments	—	41,748,318	41,748,318
	<u>\$ —</u>	<u>\$ 89,150,749</u>	<u>\$ 89,150,749</u>

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) Interest Revenue

Interest revenue is accrued on certain loans receivable that are significantly in arrears. Interest revenue recognized on these loans is offset by a corresponding increase in the provision for doubtful accounts and, accordingly, the Corporation's excess of revenue over expenditure and surplus are fairly stated. This practice of accruing and reporting interest on these loans was adopted because the Corporation's computer system does not have the capability of calculating interest both in accordance with loan agreements and also in accordance with generally accepted accounting principles. During fiscal year 1995-96 management will introduce a computer system which will provide the information necessary to comply with the applicable generally accepted accounting principles.

(b) Investments

Short-term investments are carried at the lower of cost or amortized cost and market value.

(continued...)

(Note 2 continued...)

Long-term investments are carried at cost or amortized cost unless there is a permanent decline in the value of the investments, when the investments are written down to recognize the loss.

(c) Capital Assets and Amortization

Capital assets are recorded at cost. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building	40 years
Computer equipment	5 years
Equipment and furniture	10 years
Vehicles	5 years

d) Property Held for Sale

Property held for sale is recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Corporation obtains title to the property plus subsequent disbursements related to the property less any revenues or lease payments received and any related allowance for losses on realization.

(e) Fees

Application fees are recorded when the applications are received, and loan fees are recorded at the time of loan disbursement. Other fees are recorded when the Corporation completes the applicable work.

(f) Provision for Losses on Loans and Guarantees

Provisions are established for specifically identified potential losses on loans and guarantees as well as for anticipated, but not specifically identified, losses. A specific provision is established on a loan-by-loan basis, whereas a general provision is based on historical experience and is intended to cover losses on loans and guarantees that have not yet been specifically identified.

(g) Loan Discounting

Loans made under the Disaster Assistance Programs, Canada-Alberta Partnership on Agri-food Program, and amounts previously deferred under the Indexed Deferral Plan have been discounted because they involve significant concessionary elements. The amounts outstanding have been discounted to their estimated present value. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

If government borrowing rates become significantly higher than the Corporation's lending rates, similar discounting principles will be applied to future loans to be disbursed by the Corporation.

(h) Pension

Expenditures

Salaries and benefits include the cost of pension obligations earned by employees during the year and interest on the portion of unfunded pension liabilities which the Corporation has agreed to fund.

Liabilities

Accounts payable and accrued liabilities include the portion of unfunded pension liabilities for which the Corporation is responsible.

NOTE 3 FINANCIAL STRUCTURE

(a) The budget as shown in the statement of revenue, expenditure and surplus was approved by the Board of Directors on April 27, 1995 and reflects contributions by the Province of Alberta authorized through the Legislative Assembly.

(b) Insurance

The Hail Insurance Program is entirely funded by producers. Crop Insurance, Revenue Protection and Wildlife Programs are funded according to the Cost-sharing Agreements between the Province of Alberta and the Government of Canada which provide:

- (i) for contributions to be made by the Government of Canada and the Province of Alberta matching 50% of the crop insurance premiums collected from insured persons;
- (ii) for payments to be made to the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta based on crop insurance premiums collected, plus the matching amounts received or receivable from the Government of Canada and the Province of Alberta;
- (iii) for crop indemnities in excess of crop insurance reserves to be drawn from the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta, in accordance with a formula set out in the agreement;
- (iv) for any crop insurance surplus for a fiscal year to be allocated to the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta if there is a deficit in that Fund, in accordance with a formula set out in the agreement;
- (v) for matching contributions covering administrative costs to be made by the Government of Canada and the Province of Alberta;
- (vi) for contributions to be made by the Government of Canada at 41.67%, and the Province of Alberta at 25%, of total premiums for the revenue protection program;
- (vii) for revenue protection indemnities in excess of revenue for a fiscal year to be funded by an advance; 65% from the Government of Canada and 35% from the Province of Alberta. The advances plus interest will be repaid when the revenue protection program is in a surplus position. Upon termination of the program, any deficit (excluding the administration surplus) will be funded 65% from the Government of Canada and 35% from the Province of Alberta. Upon termination of the program, any surplus (excluding the administration surplus) will be refunded in proportion to premium

contributions. Since Alberta has given notice to exit from Revenue Protection by March 31, 1996, these financial statements reflect the distribution of the surplus.

(c) Lending

- (i) The Corporation's loans are funded through debentures to the Alberta Heritage Savings Trust Fund. The Corporation's operations are funded by contributions from the General Revenue Fund of the Province of Alberta through the Department of Agriculture, Food and Rural Development for operations under the Agriculture Financial Services Act, and through Alberta Public Safety Services for operations under Disaster Assistance Programs. The Canada-Alberta Partnership on Agri-food is funded by the Government of Alberta and Canada.
- (ii) Certain office accommodation and support costs, totalling approximately \$2,560,000 are provided by the General Revenue Fund of the Province of Alberta, and, accordingly, these costs are not reflected in these financial statements.

NOTE 4 LOAN PROGRAMS AND REPAYMENT OPTIONS

(a) Beginning Farmer Program

This program provides loans to eligible beginning farmers. Loans made under this program entitle borrowers, as long as certain conditions are met, to an incentive equal to 3% of outstanding principal over each of the first five years of the loan. Beginning farmer loans are made for terms of up to 20 years with interest at 9% and are secured by land and other farm assets.

(b) Disaster Assistance Programs

In addition to programs offered under the Agriculture Financial Services Act, the Corporation also administers three Disaster Assistance Programs

(continued...)

(Note 4 continued...)

funded through Alberta Public Safety Services. The programs used to provide disaster loans, from 1990 to 1993, with non-interest bearing terms for two or five year periods. Alternatively, certain eligible borrowers could receive funds equivalent to the interest free benefit of a disaster loan. The cost of these programs is reimbursed by Alberta Public Safety Services, and its contribution is reflected in the statement of revenue, expenditure and surplus.

(c) **Canada-Alberta Partnership on Agri-food**

This program provides financing to help stimulate private sector investment in the agriculture and food processing industry in Alberta. The program provides loans for eligible projects, which are non-interest bearing for a maximum of five years (see also Note 8(b)).

(d) **Loan Guarantees**

The Corporation guarantees certain farm and agri-business loans made by other financial institutions and vendors in Alberta. The Province of Alberta indemnifies the Corporation for any losses that might be incurred on loan guarantees.

(e) **Indexed Deferral Plan**

Prior to March 31, 1993, the Indexed Deferral Plan allowed for the deferral of certain payments due on loans where that year's commodity price index was less than a 10-year average for the index. The terms of the deferral require that in years where the current commodity index is greater than the 10-year average index, a portion of the deferred balance will be payable. Interest is not charged on amounts deferred under this Plan.

NOTE 5 INVESTMENTS

	1995		1994	
	Short-term	Long-term	Short-term	Long-term
Bonds and debentures:				
Government of Canada,				
direct and guaranteed	\$ 51,464,553	\$ 11,551,525	\$ -	\$ 16,531,459
Province of Alberta	6,119,433	7,467,463	1,377,298	7,457,298
Other provincial direct				
and guaranteed	7,713,162	13,007,505	-	7,980,850
	65,297,148	32,026,493	1,377,298	31,969,607
Accrued interest	3,300,572	789,156	308,303	663,348
	<u>\$ 68,597,720</u>	<u>\$ 32,815,649</u>	<u>\$ 1,685,601</u>	<u>\$ 32,632,955</u>
Approximate market value				
at March 31(excluding				
accrued interest)	<u>\$ 64,709,600</u>	<u>\$ 30,070,118</u>	<u>\$ 1,310,250</u>	<u>\$ 30,043,225</u>

Short-term investments are recorded at amortized cost as this approximates market value.

NOTE 6 ACCOUNTS RECEIVABLE

	1995	1994
Premiums from insured persons:		
Crop insurance program	\$ 4,073,137	\$ 3,361,407
Hail insurance program	1,478,555	914,182
Revenue protection program	3,997,649	3,306,325
Recoveries, revenue protection program	5,118,348	3,447,289
Other receivables	234,780	192,602
	<u>14,902,469</u>	<u>11,221,805</u>
Less: Allowance for doubtful accounts		
(Note 18)	<u>905,972</u>	<u>517,951</u>
	<u>\$ 13,996,497</u>	<u>\$ 10,703,854</u>

NOTE 7 DUE FROM (TO) PROVINCE OF ALBERTA

	1995	1994
Unexpended premiums and administration expenditure grants	\$ (33,925,333)	\$ (1,094,671)
Disaster assistance	1,337,516	560,383
Interest payable	(3,829,006)	(669,564)
Advances	-	(34,000,000)
(Surplus) deficit recovery	(10,451,233)	90,031,804
	<u>\$ (46,868,056)</u>	<u>\$ 54,827,952</u>

NOTE 8 GOVERNMENT OF CANADA FUNDING**(a) Due from (to) Government of Canada**

	1995	1994
Premiums and administration expenditure receivable	\$ 7,851,071	\$ 25,580,011
Canada-Alberta Partnership on Agri-food	(1,324,126)	(120,539)
Interest payable	(117,286)	(338,874)
(Surplus) deficit recovery	(17,420,116)	30,305,981
	<u>\$ (11,010,457)</u>	<u>\$ 55,426,579</u>

(b) Deferred Canada-Alberta Partnership on Agri-food Contribution

The Corporation delivers the Canada-Alberta Partnership on Agri-food program which is funded equally by the Governments of Alberta and Canada. The amount shown on Note 8(a) does not include the Deferred Canada-Alberta Partnership on Agri-food Contribution.

One-half of the Government of Canada's share of the funding is payable to Canada by September 30, 1996 and is included in the total Due from (to) Government of Canada figure shown in Note 8(a). The other half of

the Government of Canada's funding is used to defray the current and future administration and interest costs of the program. The unexpended portion of this contribution is shown as a deferred contribution on the balance sheet and is comprised of the following:

	1995	1994
Funding by the Government of Canada	\$ 4,156,944	\$ 3,228,947
Less: One half repayable	2,078,472	1,614,473
Contribution by the Government of Canada	2,078,472	1,614,474
Expenses for the year	563,621	242,659
Deferred contribution for the year	1,514,851	1,371,815
Deferred contribution at beginning of year	1,576,564	204,749
Deferred contribution at end of year	<u>\$ 3,091,415</u>	<u>\$ 1,576,564</u>

NOTE 9 CROP REINSURANCE FUNDS

The Crop Reinsurance Fund of Alberta is held by the Province of Alberta. Amounts due to or from this Fund are calculated and included in Due from (to) Crop Reinsurance Fund of Alberta on the balance sheet.

The Crop Reinsurance Fund of Canada for Alberta is held by the Government of Canada. Amounts due to or from the Fund are calculated and paid periodically.

The balances in these funds, as at March 31, are as follows:

	Crop Reinsurance Fund of Alberta		Crop Reinsurance Fund of Canada for Alberta	
	1995	1994	1995	1994
Opening surplus (deficit)	\$ 22,366	\$ (16,133,396)	\$ 12,476,880	\$ (2,675,823)
Current year contributions	12,892,636	14,919,814	12,892,636	14,919,814
	12,915,002	(1,213,582)	25,369,516	12,243,991
Recoveries from the Corporation	-	1,235,948	-	232,889
Closing surplus	<u>\$ 12,915,002</u>	<u>\$ 22,366</u>	<u>\$ 25,369,516</u>	<u>\$ 12,476,880</u>

NOTE 10 LOANS RECEIVABLE

Assuming that options to renew will be exercised, loans are repayable in instalments due as follows:

	1995	1994
Arrears of principal and interest	\$ 14,041,328	\$ 16,013,362
Prepaid balances	(20,487,339)	(21,370,267)
Principal due in:		
Year(s) 1	55,706,233	52,426,902
2	63,164,337	55,538,264
3	60,989,171	62,459,415
4	62,429,649	59,372,269
5	63,953,183	61,056,518
Year(s) 6-10	290,178,406	296,103,145
Year(s) over 10	282,583,290	315,485,582
Amounts deferred under the Indexed Deferral Plan	38,553,060	43,089,783
	911,111,318	940,174,973
Plus: Accrued interest	35,926,191	37,287,897
	947,037,509	977,462,870
Less:		
Allowance for doubtful accounts (Note 18)	(40,798,546)	(40,149,658)
Accrued incentives	(4,457,729)	(4,889,553)
Loan discounts	(30,610,571)	(33,733,000)
	<u>\$ 871,170,663</u>	<u>\$ 898,690,659</u>

Included in the above are non-interest bearing loans which, before discounting, have principal amounts outstanding of:

	1995	1994
Disaster Assistance Programs	\$ 40,833,933	\$ 48,182,500
Indexed Deferral Plan	38,553,060	43,089,783
Canada-Alberta Partnership on Agri-food	15,794,961	7,655,814
	<u>\$ 95,181,954</u>	<u>\$ 98,928,097</u>

NOTE 11 PROPERTY HELD FOR SALE

Property, consisting mainly of land, has been acquired as a result of foreclosures, quit claims and other actions.

	1995	1994
Cost of property	\$ 5,262,915	\$ 7,583,539
Less: Allowance for losses on realization (Note 18)	(2,900,000)	(4,415,500)
Estimated net realizable value	<u>\$ 2,362,915</u>	<u>\$ 3,168,039</u>

NOTE 12 OTHER ASSETS

	1995	1994
Investment in Northern Lite Canola Inc.	\$ -	\$ 14,600,000
Other unlisted preferred shares	4,275,000	4,425,000
Less: Allowance for losses on realization (Note 18)	(250,000)	(16,350,000)
	<u>\$ 4,025,000</u>	<u>\$ 2,675,000</u>

NOTE 13 CAPITAL ASSETS

	1995		1994	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 115,000	\$ -	\$ 115,000	\$ 115,000
Building	2,918,757	(237,065)	2,681,692	2,800,524
Computer equipment	4,308,946	(3,210,158)	1,098,788	1,700,334
Equipment and furniture	1,075,108	(494,696)	580,412	875,849
Vehicles	674,620	(328,995)	345,625	360,131
	<u>\$ 9,092,431</u>	<u>\$ (4,270,914)</u>	<u>\$ 4,821,517</u>	<u>\$ 5,851,838</u>

Effective April 1, 1994, the Corporation increased the threshold for capitalizing capital assets to \$1,500. Previously capitalized assets costing \$2,940,824, together with related amortization of \$2,461,562, were written off to conform to this policy. This increased the Corporation's expenses by \$479,262.

NOTE 14 PENSION LIABILITY

The Corporation participates with other employers in two defined benefit pension plans. These plans provide pensions for some of the Corporation's employees based on length of service and earnings.

The Corporation had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1995	1994
Public Service Pension Plan	\$ 1,053,000	\$ 983,000
Management Employees Pension Plan	793,000	682,000
	<u>\$ 1,846,000</u>	<u>\$ 1,665,000</u>

The total unfunded pension liability for each plan as at March 31, 1995 was determined by actuarial valuations, as at December 31, 1993 for the Public Service plan and as at December 31, 1994 for the Management Employees plan, both extrapolated to March 31, 1995. The 1994 comparative figures were based on extrapolations of December 31, 1991 actuarial valuations.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Corporation's portion of the liability was based on the Corporation's percentage of the total pensionable payroll of all employers and is recorded on the balance sheet under accounts payable and accrued liabilities.

NOTE 15 ESTIMATED INDEMNITIES PAYABLE

	1995	1994
Revenue protection	\$ 12,115,762	\$ 59,319,734
Crop insurance	293,505	2,426,783
Wildlife	68,000	300,000
	<u>\$ 12,477,267</u>	<u>\$ 62,046,517</u>

NOTE 16 CONTINGENCIES AND COMMITMENTS

	1995	1994
Other loan guarantees	\$ 64,360,136	\$ 52,333,431
Less: Allowance for losses (Note 18)	(5,342,000)	(4,931,000)
Total contingencies	<u>\$ 59,018,136</u>	<u>\$ 47,402,431</u>
Estimated farm loan incentives	\$ 25,330,889	\$ 21,325,912
Approved, undisbursed loans	19,078,304	20,422,406
Total commitments	<u>\$ 44,409,193</u>	<u>\$ 41,748,318</u>

NOTE 17 DEBENTURES PAYABLE

Debentures payable to the Province of Alberta are comprised of the following:

Series	Year of Maturity	Weighted Average Interest Rate	March 31 Principal Outstanding	
			1995	1994
A	2004	9.94%	\$ 81,100,000	\$ 88,880,000
B	2004 - 2005	9.13%	22,000,000	23,600,000
C	2005	11.33%	47,200,000	50,400,000
D	2006	10.53%	79,100,000	84,300,000
E	2006 - 2007	9.57%	128,720,000	136,720,000
F	2007 - 2009	8.49%	190,450,000	201,450,000
G	2009 - 2010	9.56%	72,750,000	75,660,000
H	2010 - 2011	10.91%	85,020,000	88,290,000
I	2012 - 2013	8.72%	34,440,000	35,670,000
J	2009	7.93%	40,939,506	42,493,947
K	2011	10.37%	36,957,938	37,837,364
L	2002	10.12%	75,607,852	83,485,067
			894,285,296	948,786,378
Accrued interest			13,010,852	13,923,210
			<u>\$ 907,296,148</u>	<u>\$ 962,709,588</u>

Interest rates on debentures are fixed for five-year periods.

Repayments are by semi-annual payments over the life of the debentures.

Principal repayments due in each of the next five years are as follows:

Year ending March 31,	1996	\$ 57,127,489
	1997	60,858,797
	1998	64,035,683
	1999	67,709,916
	2000	72,164,477

NOTE 18 ALLOWANCE FOR DOUBTFUL ACCOUNTS AND FOR LOSSES

	Loans	Property for Sale	Other Assets	Loan Guarantees	Accounts Receivable	Total
Allowance at March 31, 1993	\$ 48,698,599	\$ 10,989,208	\$ 14,850,000	\$ 1,905,000	\$ -	\$ 76,442,807
Transfers to property for sale in 1993-94	(7,354,300)	7,354,300	-	-	-	-
Provision for 1993-94	3,678,775	(760,474)	1,500,000	3,026,000	517,951	7,962,252
Write-offs in 1993-94	(4,873,416)	(13,167,534)	-	-	-	(18,040,950)
Allowance at March 31, 1994	40,149,658	4,415,500	16,350,000	4,931,000	517,951	66,364,109
Transfers to property for sale in 1994-95	(1,397,900)	1,397,900	-	-	-	-
Provision for 1994-95	4,910,424	(299,829)	(2,556,905)	411,000	393,749	2,858,439
Write-offs in 1994-95	(2,863,636)	(2,613,571)	(13,543,095)	-	(5,728)	(19,026,030)
Allowance at March 31, 1995	<u>\$ 40,798,546</u>	<u>\$ 2,900,000</u>	<u>\$ 250,000</u>	<u>\$ 5,342,000</u>	<u>\$ 905,972</u>	<u>\$ 50,196,518</u>

NOTE 19 CONTRIBUTION FROM PROVINCE OF ALBERTA

Contribution from Province of Alberta includes operating grants from the Department of Agriculture, Food and Rural Development and Alberta Public Safety Services (APSS). The APSS contribution was determined as follows:

	1995	1994
Interest expense	\$ 6,575,403	\$ 7,720,380
Disaster Assistance interest benefits	18,652,463	20,992,698
Administration expense	368,406	667,000
Provision for doubtful accounts and losses on realization of assets	84,198	31,098
Less: Interest and other revenue	(1,679,035)	(1,556,522)
APSS Contribution	<u>\$ 24,001,435</u>	<u>\$ 27,854,654</u>

NOTE 20 ADMINISTRATION EXPENSE

Certain administration expenses of the Corporation are common to the Insurance Division and Lending Division and have been allocated equally to each division. Certain administration expenses of the Insurance Division are common to the crop insurance, revenue protection, hail insurance and wildlife insurance programs and have been allocated to each on the basis of the number of insurance contracts and claims processed during the year.

NOTE 21 COMPARATIVE FIGURES

Effective April 1, 1994, Alberta Hail and Crop Insurance Corporation merged with Alberta Agricultural Development Corporation to form Agriculture Financial Services Corporation. The 1994 figures of each entity have been combined and reclassified where necessary to conform to 1995 presentation.

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF INSURANCE REVENUE, EXPENDITURE AND SURPLUS
FOR THE YEAR ENDED MARCH 31, 1995

SCHEDULE 1

	1995					1994
	Revenue Protection Fund	Crop Insurance Fund	Hail Insurance Fund	Wildlife Fund	Total	Total (Note 21)
Revenue:						
Premiums from insured persons	\$ 78,001,358	\$ 43,877,750	\$ 21,880,286	\$ -	\$ 143,759,394	\$ 175,110,820
Interest	2,154,800	304,636	520,872	23	2,980,331	1,763,884
Contributions from Province of Alberta	56,861,143	26,287,255	-	288,669	83,437,067	130,405,000
Contributions from Government of Canada (Note 8)	95,447,095	25,199,090	-	200,292	120,846,477	158,529,269
Investment income	2,327,470	1,772,729	2,372,625	21,130	6,493,954	7,381,215
	<u>234,791,866</u>	<u>97,441,460</u>	<u>24,773,783</u>	<u>510,114</u>	<u>357,517,223</u>	<u>473,190,188</u>
Expenditure:						
Indemnities	25,067,415	23,905,473	20,488,647	445,810	69,907,345	306,061,451
Interest	4,111,658	-	-	-	4,111,658	4,260,032
Reinsurance	-	25,785,272	464,358	-	26,249,630	30,077,541
Administration expense, Schedule 2 (Note 20)	7,108,257	7,604,390	4,893,218	85,910	19,691,775	20,945,742
Provision for doubtful accounts and for losses (Note 18)	475,749	(81,920)	(80)	-	393,749	517,951
	<u>36,763,079</u>	<u>57,213,215</u>	<u>25,846,143</u>	<u>531,720</u>	<u>120,354,157</u>	<u>361,862,717</u>
Excess (deficiency) of revenue over expenditure for the year	<u>198,028,787</u>	<u>40,228,245</u>	<u>(1,072,360)</u>	<u>(21,606)</u>	<u>237,163,066</u>	<u>111,327,471</u>
Recoverable by the Crop Reinsurance Fund of Canada for Alberta	-	-	-	-	-	(232,889)
Recoverable by the Crop Reinsurance Fund of Alberta	-	-	-	-	-	(1,235,948)
Recoverable by the Government of Canada	(89,048,931)	-	-	-	(89,048,931)	(94,424,726)
Recoverable from (by) the Province of Alberta	(95,670,216)	(4,812,822)	-	-	(100,483,038)	618,359
Recoverable by producers	(13,933,584)	-	-	-	(13,933,584)	-
	<u>(198,652,731)</u>	<u>(4,812,822)</u>	<u>-</u>	<u>-</u>	<u>(203,465,553)</u>	<u>(95,275,204)</u>
Surplus (deficit) for the year	<u>(623,944)</u>	<u>35,415,423</u>	<u>(1,072,360)</u>	<u>(21,606)</u>	<u>33,697,513</u>	<u>16,052,267</u>
Surplus at beginning of year	<u>816,182</u>	<u>14,892,497</u>	<u>37,245,670</u>	<u>22,775</u>	<u>52,977,124</u>	<u>36,924,857</u>
Surplus at end of year	<u>\$ 192,238</u>	<u>\$ 50,307,920</u>	<u>\$ 36,173,310</u>	<u>\$ 1,169</u>	<u>\$ 86,674,637</u>	<u>\$ 52,977,124</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF ADMINISTRATION EXPENSES
FOR THE YEAR ENDED MARCH 31, 1995

SCHEDULE 2

	1995					1994	
	Lending Division	Revenue Protection Fund	Crop Insurance Fund	Hail Insurance Fund	Wildlife Fund	Total	Total (Note 21)
Salaries and benefits	\$ 7,502,062	\$ 2,993,156	\$ 2,993,156	\$ 1,296,849	\$ 36,591	\$ 14,821,814	\$ 18,006,083
Adjusters' wages and benefits	-	1,279,673	1,570,041	327,316	13,393	3,190,423	3,960,502
Travel and automobile	294,886	853,894	1,046,069	249,034	16,016	2,459,899	2,980,679
Hail agents' commissions	-	-	-	1,899,263	-	1,899,263	1,150,656
Contracted services	1,295,570	167,078	169,306	89,805	2,043	1,723,802	1,385,499
Data processing	491,643	271,831	278,200	109,505	3,383	1,154,562	1,157,983
Office accommodation costs	90,105	354,788	354,888	345,402	4,337	1,149,520	1,089,260
Stationery and supplies	340,781	280,527	368,062	108,453	2,707	1,100,530	897,133
Amortization of capital assets	388,891	198,634	175,818	186,777	2,069	952,189	1,163,591
Equipment, rental and maintenance	156,668	73,362	73,362	31,748	897	336,037	456,026
Advertising	103,356	51,921	73,022	90,539	455	319,293	227,779
Postage and freight	41,744	112,373	112,373	48,731	1,374	316,595	348,657
Professional services	44,073	123,945	94,450	33,289	824	296,581	397,538
Collection commissions	8,895	127,220	94,415	14,943	17	245,490	502,601
Training, meetings, seminars, conferences	87,896	38,370	38,790	20,255	469	185,780	202,532
Telecommunications	63,640	49,369	48,664	15,550	672	177,895	200,293
Directors' fees and expenses	75,563	30,905	30,905	13,375	378	151,126	163,869
Grain grading	-	77,902	59,560	-	-	137,462	226,979
Bonding and insurance	19,131	15,175	15,175	8,864	186	58,531	44,721
Bank charges	7,779	8,134	8,134	3,520	99	27,666	52,141
1995 Totals	<u>\$ 11,012,683</u>	<u>\$ 7,108,257</u>	<u>\$ 7,604,390</u>	<u>\$ 4,893,218</u>	<u>\$ 85,910</u>	<u>\$ 30,704,458</u>	
1994 Totals	<u>\$ 13,668,780</u>	<u>\$ 8,244,529</u>	<u>\$ 9,366,048</u>	<u>\$ 3,194,546</u>	<u>\$ 140,619</u>		<u>\$ 34,614,522</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF SALARIES AND BENEFITS
FOR THE YEAR ENDED MARCH 31, 1995

SCHEDULE 3

	1995				1994	
	Number of Individuals	Salary and Wages ⁽¹⁾	Benefits and Allowances ⁽²⁾	Total	Number of Individuals	Total (Note 21)
Chair	1	\$ 25,852	\$ 599	\$ 26,451	1	\$ 28,174
Board members	8	70,705	1,057	71,762	11	94,207
Subtotal ⁽³⁾	9	96,557	1,656	98,213	12	122,381
President and Managing Director	1	98,100	25,430	123,530	1	124,947
Vice President, Finance and Administration	1	88,410	17,543	105,953	1	100,671
Vice President, Insurance Operations	1	62,532	22,000	84,532	1	96,443
Vice President, Lending Operations	1	73,848	13,600	87,448	1	89,207
Vice President, Research and Program Development	1	71,871	9,773	81,644	1	85,172
Other management employees (average 1995 \$71,650, 1994 \$71,780)	21	1,271,311	233,355	1,504,666	24	1,722,741
Other salaried staff (average 1995 \$40,760, 1994 \$41,126)	270	9,569,064	1,436,151	11,005,215	302	12,420,124
Non-salaried staff		1,118,007	188,130	1,306,137		1,445,758
Subtotal		12,353,143	1,945,982	14,299,125		16,085,063
Adjusters		2,709,469	480,954	3,190,423		3,960,502
Total before retiring allowances		15,159,169	2,428,592	17,587,761		20,167,946
Retiring allowances		-	341,689	341,689		1,518,094
Unfunded pension costs		-	181,000	181,000		47,000
Relocation costs		-	-	-		335,926
Total		\$ 15,159,169	\$ 2,951,281	\$ 18,110,450		\$ 22,068,966


(1) Salary and wages include fees for Chair and Board members and regular base pay and overtime for employees.

(2) Benefits and allowances include employer's share of all employee benefits, including health care, dental coverage, group life insurance, pensions, unemployment insurance, accidental disability and dismemberment insurance, long-term disability, travel and accident insurance, living allowance, professional memberships and vacation payouts. Employer pension costs are included in benefits and allowances. No amount is included in the benefits and allowances figure for an automobile provided to the President and Managing Director.

(3) Directors fees of \$98,213 (1994 \$122,381) shown above plus expenses of \$52,913 (1994 \$41,488) for a total of \$151,126 (1994 \$163,869) are shown in Schedule 2 as Directors fees and expenses.



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